

Message Text

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ACTION EUR-12

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FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 6164
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: WEEKLY ECONOMIC AND FINANCIAL DEVELOPMENTS

1. SUMMARY. SEASONALLY ADJUSTED MERCHANDISE TRADE SURPLUS EXPANDED TO CDOLS 420 MILLION BRINGING SURPLUS FOR 1977 TO CDOLS 2.9 BILLION. EFFECTS OF CANADIAN DOLLAR DEPRECIATION EVIDENT AS EXPORT VOLUMES ROSE BY 9 PERCENT IN 1977 COMPARED WITH IMPORT VOLUME INCREASE OF LESS THAN 1 PERCENT. PRE-LIMINARY AND UNOFFICIAL FIGURES ON U.S./CANADIAN AUTO TRADE SHOW SLIGHT RISE IN CANADIAN DEFICIT TO CDOLS 1.05 BILLION. LATEST FIGURES ON AVERAGE WEEKLY EARNINGS AND EMPLOYMENT INDICATE CONTINUED WEAKNESS OF PRODUCTION ACTIVITY. QUEBEC ANNOUNCED FIRST MAJOR CHANGES SINCE 1973 IN COMPOSITION OF SYNDICATE OF INVESTMENT FIRMS UNDERWRITING PROVINCIAL GOVERNMENT AND HYDRO QUEBEC DOMESTIC BOND ISSUE; NO CHANGES CONTEMPLATED IN SYNDICATE UNDERWRITING ISSUES IN U.S. CAPITAL AND EXCHANGE MARKETS QUIET TO WEEK ENDING JANUARY 27. AVERAGE CANADIAN DOLLAR EXCHANGE RATE FOR WEEK WAS .9039 COMPARED WITH .9073 PREVIOUS WEEK. END SUMMARY.
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2. EXTERNAL DEVELOPMENTS. ON BALANCE OF PAYMENTS BASIS, SEASONALLY ADJUSTED MERCHANDISE TRADE SURPLUS INCREASED TO CDOLS 420 MILLION IN DECEMBER FROM CDOLS 180 MILLION IN NOVEMBER. EXPORT AND IMPORT VALUES ROSE BY 23 PERCENT AND 17 PERCENT RESPECTIVELY, REVERSING VALUE DECLINES REGISTERED IN NOVEMBER. DECEMBER SURPLUS BRINGS SURPLUS FOR

1977 TO CDOLS 2.9 BILLION.

3. ON CUSTOMS BASIS, VALUE OF EXPORTS TO U.S. ROSE 19.7 PERCENT TO CDOLS 25.8 BILLION IN 1977 AND PROPORTION OF EXPORTS GOING TO U.S. REACHED 70 PERCENT, UP FROM 1976 SHARE OF 65.3 PERCENT. AUTOMOTIVE PARTS AND VEHICLES EXPORTS FIGURED SIGNIFICANTLY IN TOTAL INCREASE IN TOTAL EXPORTS TO U.S. EXPORTS TO OTHER COUNTRIES ROSE BY 7.1 PERCENT TO CDOLS 13.2 BILLION IN 1977.

4. IMPORTS (CUSTOMS BASIS) FROM U.S. ROSE BY 14.7 PERCENT TO CDOLS 29.5 BILLION LAST YEAR. ABOUT HALF OF GROWTH IN TOTAL IMPORTS ACCOUNTED FOR BY AUTOMOTIVE PRODUCTS, WHILE NEARLY TWO-THIRDS OF LATTER INCREASE WAS IN PARTS IMPORTS. IMPORTS FROM OTHER COUNTRIES ROSE BY 6.6 PERCENT TO CDOLS 12.5 BILLION.

5. PRELIMINARY (ON BASIS PARTIAL DATA) STATCAN BREAKDOWN OF TRADE FLOWS IN 1978 INTO VOLUME AND PRICE COMPONENTS SHOWS PROGRESSIVE IMPACT OF DEPRECIATION DURING 1977. , (CANADIAN DOLLAR DECLINED ABOUT 8 PERCENT AGAINST U.S. DOLLAR LAST YEAR.) IMPORT VOLUMES ARE ESTIMATED TO HAVE RISEN BY 1 PERCENT OR SLIGHTLY LESS, WHILE IMPORT PRICES INCREASED BY ABOUT 11 PERCENT. ESTIMATED GROWTH OF IMPORT VOLUMES IMPLIES MARGINAL PROPENSITY TO IMPORT OF ABOUT 0.4 IN 1977 (ASSUMING REAL GNP GREW BY ABOUT 2.3 PERCENT), UNCLASSIFIED

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COMPARED WITH ESTIMATED HISTORIC AVERAGE ELASTICITY OF ABOUT 1.2. BANK OF CANADA ESTIMATES THAT BULK OF IMPACT OF DEPRECIATION ON IMPORT VOLUMES AND PRICES OCCURS WITHIN THREE QUARTERS OF INITIAL DEPRECIATION. SINCE ABOUT HALF OF TOTAL DEPRECIATION FOR YEAR TOOK PLACE BY MID-1977 IMPACT ON IMPORTS CAN BE EXPECTED TO LAST THROUGH THIRD QUARTER OF 1978.

6. STATCAN PUTS GROWTH OF EXPORT VOLUMES AND PRICES AT 9 PERCENT AND 6 PERCENT RESPECTIVELY. HISTORIC AVERAGE INCOME ELASTICITY OF CANADIAN EXPORTS IS ABOUT 1.5; ACTUAL VOLUME INCREASE IN 1977 IMPLIES INCOME ELASTICITY OF CLOSE TO 2, AGAIN REFLECTING IMPACT OF DEPRECIATION. RISE IN EXPORT PRICES OF 6 PERCENT ALSO CONSISTENT WITH BANK OF CANADA ESTIMATES THAT 1 PERCENT DEPRECIATION LEADS QUICKLY TO 0.75 - 8.0 PERCENT RISE IN EXPORT PRICES. LAGS IN RESPONSE OF EXPORT VOLUMES TO DEPRECIATION LONGER THAN THOSE OF IMPORT VOLUMES. THUS, POSITIVE EFFECTS OF DEPRECIATION ON EXPORT VOLUMES SHOULD BE FELT THROUGH THIS YEAR AND INTO 1979.

7. AUTOMOTIVE TRADE. PRELIMINARY AND UNOFFICIAL STATISTIC

ON U.S./CANADA AUTOMOTIVE TRADE INDICATE THAT CANADIAN DEFICIT INCREASED SLIGHTLY TO CDOLS 1.05 BILLION IN 1977 FROM 1976 DEFICIT OF CDOLS 976 BILLION. DEFICIT ON PARTS TRADE WAS NEARLY CDOLS 3.0 BILLION, UP FROM CDOLS 2.4 BILLION DEFICIT LAST YEAR, WHILE SURPLUS ON ASSEMBLED VEHICLE ROSE BY CDOLS 563 MILLION TO CDOLS 1.9 BILLION. TOTAL VALUE OF U.S./CANADA AUTOMOTIVE TRADE INCREASED SHARPLY DURING YEAR, WITH VALUE OF CANADIAN IMPORTS RISING BY 22 PERCENT AND VALUE OF EXPORTS, BY 24 PERCENT. EXPORTS OF PARTS INCREASED BY 23 PERCENT; PARTS IMPORTS ADVANCED BY

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24 PERCENT. EXPORTS AND IMPORTS OF ASSEMBLED VEHICLES INCREASED BY 25 PERCENT AND 19 PERCENT RESPECTIVELY.

8. DOMESTIC DEVELOPMENTS. INDICATORS OF EMPLOYMENT, AVERAGE EARNINGS AND HOURS WORKED CONTINUE TO REFLECT WEAKNESS OF PRODUCTION ACTIVITY. INDEX OF EMPLOYMENT STOOD AT 144.3 IN NOVEMBER AND WAS CONSTANT AT OCTOBER LEVEL. EMPLOYMENT DECLINED IN CONSTRUCTION AND MINING, BUT INCREASED IN OTHER SECTORS. AVERAGE WEEKLY EARNINGS ALSO CONSTANT AT OCTOBER LEVEL, LARGELY DUE TO DECLINE IN AVERAGE HOURS WORKED IN MINING, MANUFACTURING AND CONSTRUCTION. AVERAGE HOURLY EARNINGS IN MANUFACTURING (SEASONALLY ADJUSTED) ROSE BY 0.9 PERCENT BETWEEN OCTOBER AND NOVEMBER.

9. CAPITAL MARKETS. CAPITAL MARKETS WERE QUIET IN WEEK ENDING JANUARY 26. INTEREST RATE ON THREE MONTH TREASURY BILLS WAS 7.13 PERCENT, UNCHANGED FROM PREVIOUS WEEK. . MONEY MARKET RATES DECLINED SLIGHTLY. LONG TERM BOND PRICES

DECLINED BY ABOUT ONE HALF POINT.

10. QUEBEC GOVERNMENT ANNOUNCED CHANGES IN COMPOSITION OF SYNDICATE WHICH UNDERWRITES DOMESTIC BOND ISSUES OF PRO-UNCLASSIFIED

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VINCIAL GOVERNMENT AND OF HYDRO QUEBEC. MANAGEMENT LEVEL OF SYNDICATE INCLUDES WOOD GUNDY OF TORONTO, BUT IS NOW DOMINATED BY MONTREAL BASED FIRMS. A.E. AMES, NESBITT-THOMPSON AND GREENSHIELDS HAVE BEEN REMOVED FROM MANAGEMENT GROUP AND HAVE BEEN PLACED IN NEWLY CREATED "SPECIAL" GROUP THAT RANKS NEXT IN SYNDICATE. QUEBEC DEPUTY MINISTER OF F FINANCE MICHEL CARON ASSERTED THAT CHANGES WERE MOTIVATED BY PERFORMANCE OF THE COMPANIES AND NOT BY POLITICAL CONSIDERATION. NO CHANGES WERE ANNOUNCED IN SYNDICATE WHICH UNDERWRITES ISSUES PLACED IN U.S.

11. SOME OBSERVERS NOW ESTIMATE THAT HYDRO QUEBEC'S TOTAL (FOREIGN AND DOMESTIC) BORROWING IN CY1978 WILL COME TO ABOUT CDOLS 500 MILLION. THE UTILITY APPARENTLY COVERED BULK OF 1978 BORROWING REQUIREMENTS WITH U.S.DOLS 750 MILLION BOND ISSUE AND U.S.DOLS 500 MILLION LINE OF CREDIT ARRANGED IN LATE 1977.

12. CANADA PENSION PLAN FUNDS TOTALLING CDOLS 1.7 BILLION WERE INVESTED IN FEDERAL AND PROVINCIAL SECURITIES IN 1977. TOTAL INVESTED IN 1976 WAS CDOLS 1.5 BILLION. UNDER CANADA PENSION PLAN ALL FUNDS PAID INTO PENSION FUND AND NOT NEEDED TO MEET EXPENSES MUST BE TRANSFERRED TO INVESTMENT FUND, FROM WHICH PROVINCES MAY BORROW IN PROPORTION TO MUST BE TAKEN UP BY FEDERAL GOVERNMENT.

13. EXCHANGE MARKETS. CANADIAN DOLLAR DECLINED AGAINST U.S. DOLLAR IN WEEK ENDING JANUARY 27. AVERAGE EXCHANGE RATE FOR WEEK WAS .9039 COMPARED WITH .9079 PREVIOUS WEEK. ENDERS

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